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**Testimony**

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Committee on Post Office and Civil Service,  
House of Representatives

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**FEDERAL  
EMPLOYMENT**

**Impact of President's  
Economic Plan on Federal  
Employees' Pay and Benefits**

Statement of  
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Madam Chairwoman and Members of the Subcommittee:

I am pleased to be here today to discuss the impact of the President's economic plan on federal employees. The plan includes several proposals to change federal pay and benefit programs, including a pay freeze for 1994 and smaller than scheduled pay adjustments for 1995 through 1997; deferred implementation of locality pay adjustments scheduled to begin next January; and cuts in retirement system benefits, particularly for survivors of deceased employees and retirees.

The President's proposals are part of a sweeping effort to promote economic growth and reduce the budget deficit. The President called for a wide-ranging series of budget cuts, revenue proposals, and re-emphasis on government support for programs that are essential to meet critical domestic needs. In doing this, the President has recognized that these proposals require sacrifices from most segments of society. Over recent years, we have joined many other voices in urging Congress and the administration to focus on the importance of reducing the budget deficit and realigning spending and taxing priorities to meet urgent social and economic needs. Unquestionably, this is the most pressing need facing the nation.

Within this context, we are also concerned about the government's need to attract and retain employees of the highest caliber. Federal employment must be competitive with other employment choices available to the nation's citizens. Federal agencies must have quality employees to meet the enormous challenges facing government and to provide the level of service the taxpayers have every right to expect. However, our past work has clearly shown that federal employment was too often not the career choice of the best and brightest, and the agencies' abilities to carry out their missions have suffered accordingly.

As recently as a couple of months ago, in our transition report on the Public Service, we pointed to the importance of federal pay reform to address these problems. We suggested that consideration should be given to reducing the government workforce to preserve funding for pay reform. At this point, the President has already directed a reduction of 100,000 positions. It is not clear whether further reductions are possible without reductions-in-force.

The President's proposals represent a reversal of the positive steps taken in the past few years to address the federal pay problem. Indeed, in the short term, the proposals will exacerbate the situation. The painful temporary pay limitations the President is asking federal employees to accept need to be considered in the context of the urgent national goals the President is trying to address. While federal employees have already sacrificed considerable amounts in past attempts to deal

with budgetary difficulties, additional sacrifices may be necessary. However, we believe the critically needed reforms to the federal pay system should be readdressed in the very near future.

The remainder of my statement addresses the history of the pay issue and summarizes the GAO work which supports the importance of continuing the effort to reform federal pay. We also comment briefly on the other proposals affecting federal retirees.

#### IMPORTANCE OF FEDERAL PAY REFORM

Since 1962, federal pay setting has, as a matter of law, been based on the principle that federal employees' pay should be "comparable" to average rates paid in the private sector for similar jobs. However, beginning in 1978 and continuing every year through 1990, presidents proposed--and Congress agreed--to set federal pay rates at lesser amounts than needed to maintain average pay comparability with the private sector. Although the practice of reducing the comparability adjustments was intended to be used only in extraordinary circumstances, the justification used for the alternative adjustments in all these years was that the country's economic situation would not allow more competitive adjustments to be granted. As a result, the gap between federal and private sector pay grew each year until it became what some have termed a "pay chasm," with federal rates being 25 to 30 percent lower than average private sector rates for jobs like those found in the government. In some localities and occupations, the pay gaps are even greater; in some others, the gaps are smaller. It has been estimated that the cumulative loss to federal employees caused by the pay limitations imposed since 1978 amounts to over \$100 billion.

Over the past few years, our work has highlighted the effect of the pay gap on agencies' abilities to recruit and retain quality employees. We have issued a number of reports (see app.) showing how uncompetitive pay impaired the government's effectiveness as an employer and how these difficulties, in turn, created operational problems. Other assessments of the situation, including studies by the National Commission on the Public Service (the "Volcker Commission"), the National Academy of Public Administration, and others, have reported similar findings. At just the time when the challenges facing public servants are the most severe in recent memory, there continues to be concern that the government cannot compete effectively in hiring the best graduates of our colleges and universities; that it may invest considerable resources in training those employees it does hire, only to soon lose them to higher paid positions outside the government; and that experienced employees are so concerned that their pay rates are insufficient for their needs that they see low pay as the primary reason they would leave federal service. While retirements of senior-level employees

have been limited in recent years because of the annuity increases which will result in 1994 from the pay adjustments they received in 1991--because annuities are based on the highest 3 years of salary--the expected exodus in 1994 may accelerate under the pay freeze.

Beginning in the late 1980s, broad-based recognition that the federal pay situation had reached crisis proportions led Congress, the Administration, and employee groups to spend considerable effort and political capital in reaching consensus on a new pay-setting process that was enacted as the Federal Employees Pay Comparability Act of 1990. Although the act included a lengthy time frame for restoring competitive pay rates, the legislation's framers agreed it was a fiscally prudent approach that promised to provide for a future federal workforce capable of meeting the challenges it would face. The act changed the principle governing federal pay from "comparability" with national average private sector pay rates to the lesser principle of making federal pay "competitive" with both private sector and state and local government pay levels on a locality-by-locality basis. It did this by establishing a phased process to make federal pay rates at least 95 percent of prevailing nonfederal rates in each locality where federal employees work by the year 2002.

Even though the pay reform legislation was designed to take over a decade to achieve this objective, it represented an important commitment to moving away from the practices of the past while recognizing that serious budget constraints were also a reality. Current and prospective federal employees will surely see this commitment as eroding if the President's proposals are enacted. If Congress accepts the proposals, we believe it is important that it also make clear that pay reform is essential in the long term and will be accomplished as soon as possible.

#### OTHER PROPOSALS

The President made three proposals to change retirement provisions for federal civilian employees. He called for an end to the lump-sum payments some retirees are eligible to receive, elimination of survivor benefits for children over age 19 who are still in school, and reductions in survivor annuities of deceased retirees.

The lump-sum payment option is now in suspension until October 1, 1995, for all retirees except those who are involuntarily separated or facing life-threatening illnesses. During the time it was available to all retirees, it proved to be a very popular option, with the great majority of all retirees taking it. Over the long run, lump-sum payments neither cost nor save the government any money since annuities are actuarially reduced to reflect the fact that the lump-sum payments were made.

The issue with the lump-sum option is really one of timing--the payments clearly increase retirement system outlays in the short term in return for lesser outlays later. The greatest argument against restoring the lump-sum option is the added outlays it would create in the next few years when concentrated attention is being paid to deficit reduction. However, selective use of a lump-sum option in the future could prove to be valuable in helping agency downsizing efforts in that it might be the added incentive needed to encourage retirement-eligible employees to leave. Such retirements could assist in avoiding involuntary reductions-in-force.

The proposal to terminate all nondisabled children's survivor benefits at age 19 instead of extending the benefits to age 22 for children who are full-time students appears to have merit. The student survivor benefit was added to federal retirement systems in 1962 to be consistent with a similar provision in the Social Security system. The Social Security provision was eliminated in 1985, and continuing with the objective of being consistent with Social Security in this area would mean it should be eliminated in the systems for federal employees as well. We would caution that there may be an unintended side effect of this change. In the federal health insurance program, unmarried children can be covered under a parent's health plan until they are age 22. But, survivors of deceased employees or retirees must be receiving annuities to be eligible for health insurance. If survivor annuities are eliminated for students over age 19, it appears that their health insurance could be eliminated as well.

We have found no explanation for the proposal to reduce benefits for spouses or other survivors of deceased retirees. Enactment of the proposal would result in considerable cuts in these benefit amounts, even though the annuity reductions retirees are required to take to provide the benefits would not change. We believe that further analysis may be necessary to ensure that the proposal's savings are achieved in a way which maintains an appropriate relationship between the survivor's benefits and the retiree's reduced annuity.

In summary, we believe the serious need to confront the country's economic and other ills is an urgent priority which everyone--including federal employees--should support. To that end, federal employees may have to make additional sacrifices like the temporary pay limitations the President has proposed. But, we are also convinced that federal employees face enormous challenges in the years ahead and their compensation should be competitive with their nonfederal counterparts if an effective workforce is to be maintained. We hope serious attention can be paid to this important issue by both the President and Congress in the very near future.

This concludes my formal statement. I would be pleased to respond to any questions you might have.

GAO REPORTS SHOWING THE NEED FOR PAY REFORM

Recruitment and Retention: Inadequate Federal Pay Cited as Primary Problem by Agency Officials (GAO/GGD-90-117, May 1990).

Federal Pay: Special Rates Effect on Recruitment for Selected Clerical Occupations (GAO/GGD-90-118, Sept. 1990).

Workforce Issues: Employment Practices in Selected Large Private Companies (GAO/GGD-91-47, Mar. 1991).

Federal Pay: Private Sector Salary Differences by Locality (GAO/GGD-91-63FS, Apr. 1991).

Federal Labor Relations: A Program in Need of Reform (GAO/GGD-91-101, July 1991).

Federal Recruiting: Comparison of Applicants Who Accepted or Declined Federal Job Offers (GAO/GGD-92-61BR, Mar. 1992).

Federal Employment: How Federal Employees View the Government As a Place to Work (GAO/GGD-92-91, June 1992).

The Public Service (GAO/OCG-93-71TR, Dec. 1992).

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